

SPECTRUM

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL



Blending the ingredients of credit bureau score

Because of the considerable influence of credit scoring in today's lending environment, it's important that everyone associated with your credit union's loan operations understand what credit scoring is all about.

Credit bureau scores are often called FICO scores because most of them are produced from software developed by Fair, Isaac & Co. The three major credit reporting agencies - Equifax, Experian, and TransUnion - provide FICO scores to lenders.

Fair, Isaac last year agreed to make FICO scores available to consumers. Its web site—www.fairisaac.com—states: "Score Power, launched in 2001 by Fair, Isaac and Equifax, is the only service that enables consumers to buy their FICO score—the score lenders use. It's available for \$12.95 through www.myfico.com."

FICO scores range from a high of 850 to a low of 300. The higher the score, the more creditworthy the borrower. A lower score is based on a statistical analysis that means the consumer is more likely to become delinquent on one or more accounts or file for bankruptcy.

FICO scores are based on information in five categories, which are weighted as follows:

1. Thirty-five percent of the score is based on payment history. It shows whether or not consumers have paid past credit accounts on time. Included in this category are public record and collection items, such as bankruptcies and judgments.

The myFICO site

states, "These are considered quite serious, although older items and items with small amounts will count less than more recent items or those with larger amounts."

2. Thirty percent is based on amounts owed. If consumers are overextended, this is the category that will lower their score. Do consumers have ample capacity for additional credit, or are they maxed out on credit cards? Having additional debt capacity is crucial to a good score.

3. Fifteen percent is based on length of credit history or the length of time consumers' credit accounts have been established.

4. Ten percent is based on new credit,—the amount accumulated in the past 12 to 18 months. "Research shows that opening several accounts in a short period of time represents greater risk, especially for people who don't have long-established credit histories," the web site states. "This also extends to requests

for credit, as indicated by certain "inquiries" to the credit reporting agencies. Inquiries remain on your credit report for two years, although FICO scores only consider inquiries from the past 12 months."

Excessive shopping for credit and opening up numerous accounts in a short period of time will also lower FICO scores.

5. Ten percent is based on types or "mix" of credit. "The credit mix usually won't be a key factor in determining consumers' scores, but it will be



more important if your credit score doesn't have a lot of other information on which to base the score," according to the web site.

It is my experience that installment credit tends to raise the score and credit cards tend to lower it. Multiple loans from finance companies will also lower the score.

Most consumers are surprised to learn that the following are not considered in FICO scores or by the credit bureau:

- A consumer's debt-to-income ratio;
- A consumer's income;
- A consumer's length of residence; or
- A consumer's length of employment at a current or past employer.

Consumers can improve their credit scores by:

- Paying down credit card balances and never making just the minimum payment;
- Always paying their balances in full;
- Always making payments on time;
- Being discreet about opening new accounts; and
- Acquiring solid credit histories with ample years of credit experience. ♦

Bill Mapother is an attorney at Mapother and Mapother Attorneys-at-Law. Call him at (502) 587-5451, or e-mail Bill@mapother.com.

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MESSAGE FROM THE CHAIR

Making members' dreams come true

A hearty thanks to Vice Chair Joe Brancucci and committee members who put together the Seventh Annual CUNA Lending Council Conference. Attendees gave high grades to conference sessions. *The e-Volution of Lending* CD-Rom, incorporating speaker handouts and overhead presentations, was sent out about three weeks after the conference. That beats lugging around a heavy binder, doesn't it? Brancucci and the committee members did a great job with a demanding task.

We had record-high attendance of more than 325 lending practitioners in New Orleans. The location was a draw in itself, and the conference content was extremely valuable.

Your executive committee has almost completed the agenda for the 2002 conference scheduled for November 10-13 at the Registry Resort in Naples, FL. We expect to have another exciting program featuring educational sessions and fun networking events. You might think it'll be tough to top the jugglers, tarot card readers and casino night of last year, but I know you'll be pleased with this year's conference lineup.

Elections for the Lending Council executive committee are close at hand. Watch for a call for nominations; recommendations; and information on application deadlines, ballots and voting. The executive committee is an active and dedicated group, and welcomes potential candidates.

The council's listserv was implemented in July 2000. Since then, we've all seen the value this tool provides, not just in sharing of ideas, practices, procedures and policies, but in building camaraderie as well. Many listserv users met at the New Orleans conference and had the opportunity to put faces to names. Thanks to all who pose questions and are diligent in responding.

Recently we published the white paper *Learning from Success: the 2001 Excellence in Lending Awards*. In addition this year, we'll focus on business lending, car dealer financing, and mortgage lending for small credit unions. For immediate access to these valuable papers, check out our web site at www.cunalendingcouncil.org.

I hope all is well in your credit union. We're facing challenging times with the economy struggling, unemployment on the rise, a recession continuing to threaten, rising bankruptcy rates, a government budget deficit, stock market volatility and narrowing margins. Despite these issues, I believe we as lenders have one of the best jobs in the credit union industry. I know you'll agree that making members' dreams come true is one of the finest jobs in the world. ♦

*Fawn Terwilliger
CUNA Lending Council Chair
VP—Credit Services, Arizona State Savings
and Credit Union, Glendale, AZ*

Beyond risk-based lending

What do you think will happen to a TV & VCR repair company that doesn't expand the business to encompass new technologies such as digital and personal computers? It's a good bet that this company will soon be out of business.

There was a time when companies that repair TVs & VCRs didn't need to worry about whether the services they provide would provide income. Today they do.

There was also a time when lending executives didn't need to worry about Fair, Isaac credit scores, automated underwriting, or risk tiers. During that time, lending was simple. We would get a loan application, pull a credit report, compute a debt-to-income ratio and get a pay stub. A loan officer would review the paperwork and make a decision to approve or deny the loan.

Times have changed. Now we need to be educated on credit scoring and automated underwriting. Many of us talk about and dis-



cuss risk-based lending every day. We engage in philosophical discussions about whether pricing member loans differently based on risk is truly within the scope of "people helping people."

Some claim that even though they have single pricing policies, they still utilize automated underwriting to maintain their competitive edge. I differ with this thinking, on the basis that a single rate pricing structure adds additional basis points to the loan for the credit union's best members. I believe that unless a credit union uses risk-based pricing, it will have a hard time staying in business in the future. As with the TV & VCR repair company that doesn't expand its business to include new technology, what once made him successful may now be his demise. ♦

Claire Ippoliti is VP-Lending, Philadelphia Federal Credit Union, Philadelphia, PA. Call her at (215) 934-4040, or e-mail cippoliti@pfcu.com.

Porter presentation makes splash in Missouri

Participants enthusiastically greeted a presentation of the Lending Council's white paper on *Porter's Competitive Strategy Applied to Credit Union Lending* at the Missouri CU System's Annual Meeting and Convention, April 26. Lending Council Chair Fawn Terwilliger, and CUNA Councils Director Michael Millis presented the paper.

"We focused on pursuing three Porter strategies for competitive success," says Millis. "Those strategies are cost leadership, differentiation, and focus."

Professor Michael Porter of Harvard University studied both successful and struggling businesses and concluded that the former share similar characteristics. Based on his research, Porter developed a theory and practice of competitive strategy that has become the standard for successful businesses.

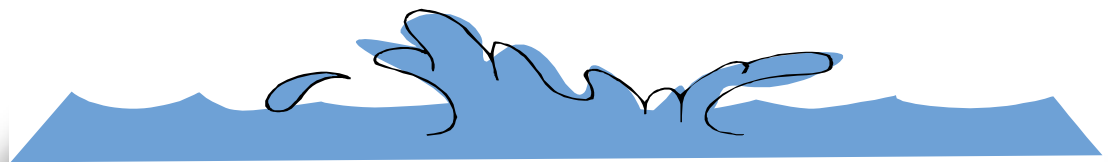
Porter believes that competition determines

the success or failure of an organization.

"Competitive strategy is the search for a favorable competitive position in an industry," he says. "Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition."

Credit unions increasingly find themselves in situations where they are competing against aggressive lenders willing to tell borrowers anything to sell a loan. Credit unions are competing against car manufacturers who provide loans at 1%. Although borrowers may be paying for loans with an inflated car price, many unsophisticated consumers simply see the low percentage rate and jump at the bait.

By using a differentiation strategy, for example, credit unions can select one or more attributes that consumers perceive as important, then position themselves to provide those attributes. They may be able to charge a



premium price, but that price must not exceed the value of the attributes. The three key areas in which credit unions can differentiate themselves are good service, unique products, and exceptional convenience.

“CUNA Councils are receiving more and more requests for this kind of information,” says Millis. “That speaks to the increased recognition of the councils. It’s also a sign that people in the movement are recognizing the councils as a resource.”

“Missouri credit unions are extremely interested in expanding their lending portfolios and want innovative strategies to do so,” says Terwilliger. “The Porter strategies are a means to help credit unions look at new strategies based on Porter’s theories.”

Terwilliger says that Porter strategies challenge credit unions to look outside the lending box and seek new ways to increase their lending portfolio. They can determine if one

of Porter’s competitive strategies can help them. “This presentation and related activities show that the lending council has increased credibility,” she says. “We took the findings of Porter’s study and applied them to credit union lending. This is the first time this has been done for credit unions.”

Porter’s book on competitive advantage focuses on for profit organizations. However, non-profits, including credit unions, can also benefit from these strategies. To improve their lending operations, credit unions need to understand the competitive forces, then develop a clear strategy. A credit union can be successful using any of the five Porter strategies. The key is to select *one* and implement it well. ♦

For more information on competitive lending strategies, see Porter’s Competitive Strategy Applied to Credit Union Lending white paper on the Lending Council web site, www.cunalendingcouncil.org.

Pre-conference session guarantees your ah-ha!

Eighth Annual CUNA Lending Conference November 10-13, 2002 The Registry Resort Naples, Florida

The 2002 Lending Conference comes at a time when the need for professional development is absolutely critical. The economy has slowed, the mortgage refinance boom has quieted, and competition for each and every loan has grown.

Randy Harrington, Ph.D., President of Extreme Arts and Sciences, will conduct a pre-conference workshop on Sunday afternoon, November 10, on Lending and the New Physics of Relationship Management. In prior years we have offered two concurrent sessions, but we believe Randy’s topic is so important that the vast majority of participants will want to take in this meeting.

In the pre-conference session Harrington begins by confronting participants with key credit union strategy issues. As lending professionals, we no longer enjoy the luxury of simply doing our jobs. Today we must reinvent core processes while performing in an increasingly competitive environment. Harrington will present a new model that explains the negative correlation of service diffusion and service quality. He guarantees at least one Ah Ha! moment for each participant.

Next, Harrington will lead participants will work through a series of re-invention experiments to identify critical issues in lending product design, channel management, CRM strategy, pricing, risk management, and tactical execution.

Participants will finish by putting it all together to develop plans for beating the paradox of service diffusion. These plans are relevant for small and large, traditional and wired credit unions. These are interactive, discussion driven sessions, so be prepared to contribute and have fun. Learning outcomes include:

- Identifying the roots of service diffusion;
- Defining “stepwise” CRM;
- Identifying the new variables for portfolio risk analysis;
- Exposing facts vs. folklore in risk management;
- Energizing a “leading with lending” effort in the credit union;
- Deploying “transforming” efforts in the credit union for lending growth.

Take advantage of the early registration discount by signing up before October 11. And remember to register for the pre-conference workshop as well. ♦

To register for the 2002 CUNA Lending Council Conference, visit www.cunalendingcouncil.org.

Councils join leagues to launch regional roundtables

As part of a strategic initiative for 2002, the CUNA Councils are reaching out to leagues across the country to develop and implement regional roundtables for credit union professionals. During the first quarter of 2002, CUNA Councils staff met with representatives from the Texas and Oklahoma Credit Union Leagues to identify best practices for the formation and development of regional councils.

The CUNA CFO and HR councils sponsored regional roundtable discussions and workshops in Texas, Ohio, and Michigan. Council regionalization highlights the value of peer networking among credit unions, and offers affordable educational opportunities.

The CUNA Council Forum identified regionalization as a key initiative at its annual planning session in San Francisco, CA, in June 2001. The CUNA Council Forum is comprised of the chairs and vice-chairs of each of the six CUNA Councils - CFO, Lending, Marketing, HR, Technology, and COO - as well as the forum chair, Gayle Gustafson, Vice President of Financial Services at Safeway Northwest Credit Union, Beaverton, OR.

In February, CUNA Council Managers Pamela Frey and Cheryl Sorenson, along with Council Director Michael Millis, met with Amber Hughes, Carol Luebke, Susan Looney, and Bob Gallman of the Texas Credit Union League; and John Bock, SVP/CIO, Community Credit Union, Plano, TX, to identify the complementary and unique features of the six CUNA Councils and the eight Texas Councils. The group identified local networking, inexpensive travel, and the opportunity for larger credit unions to mentor smaller credit unions as primary strengths of the local councils.

The strengths of the CUNA Councils include

contact with credit unions in other regions, the comprehensive listserv, research and discussion generated through white papers, and the annual conference. Dual membership in both the local and national councils was considered to be the best option for credit unions, because it provides a dual support system and reinforces the credit union system structure.

The first joint regional sessions between CUNA Councils, the leagues, and CUNA Mutual Group took place during the first quarter of this year. On February 12, over 40 representatives from credit unions in Texas, Oklahoma, Colorado, Louisiana, and New Mexico participated in a Regional CUNA CFO Council Roundtable to discuss regulations, investments, accounting, and asset-liability management. Liquidity was a key issue, since

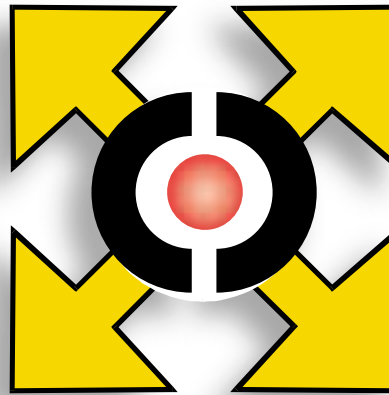
many credit unions margins have been under pressure during the past several months.

On March 5, 20 representatives from credit unions in Ohio participated in a Regional HR Issues Seminar offered by the CUNA HR Council, the Ohio League, and CUNA Mutual Group. On March 7, the seminar was repeated for 30 credit union representatives in Lansing, MI. Participants discussed

developments in employee benefits management, human resource administration, and staff training and development.

With three successful regional programs already held this year, CUNA Councils are moving forward with scheduling additional sessions for HR professionals, CFOs, and lenders. Watch for more information as dates and locations are confirmed. For more information about the CUNA Councils, visit our web site at www.cunacouncils.org. ♦

Michael Millis, CUNA Councils Director.



WELCOME NEW MEMBERS

Forty-seven new members are on the CUNA Lending Council roster. Join us in welcoming these expert lenders who have demonstrated their commitment to promoting professionalism among credit union lenders. We look forward to networking, freely exchanging ideas, and improving the overall effectiveness of our credit union's lending operation.

Brenda Anderson
Fairfax County FCU
Fairfax, VA

Melinda Anthony
Kitsap Comm FCU
Bremerton, WA

Herb Behrens
Baxter CU
Vernon Hills, IL

Arthur Bennett
Freedom FCU
Rocky Mount, NC

Pam Bowersox
First Technology CU
Beaverton, OR

Veronica Breeze
US Central CU
Overland Park, KS

Vaquisha Brown
Parda FCU
Rochester, MI

Laurie Cappelli
Community ECU
Rockledge, FL

Michele Chavers
NY State CU League
Albany, NY

John Christiansen
Black Hills FCU
Rapid City, SD

D. Michael Davis
Merrimack VFCU
North Andover, MA

Jen Evans Thompson
Whatcom ECU
Bellingham, WA

Stacie Figler
Pittsford FCU
Pittsford, NY

Beverly Freeman
Meriwest CU
San Jose, CA

Andrew Gangwer
Elkhart CFBCU
Goshen, IN

Gary Garrison
Numerica CU
Spokane, WA

Carol Gibson
Silver SSCU
Las Vegas, NV

Sheila Gillette
Ohio Univ ECU
Athens, OH

Randy Glaser
Pioneer CU
Green Bay, WI

Debbie Gonsuro
Georgia FCU
Atlanta, GA

Blaine Goodell
Tooele FCU
Tooele, UT

Helen Hosea
Burbank City EFCU
Burbank, CA

Linda Jones
GECUF
Jacksonville, FL

Brett Jorgenson
Kitsap Comm FCU
Bremerton, WA

Marge Kazz
NY State CU League
Buffalo, NY

Michele Kirkpatrick
Qualstar CU
Bellevue, WA

Robert Lamott
Philips FCU
Fort Wayne, IN

Martin Lawson
WESCORP
San Dima, CA

Thomas Loveday
Denver PSCU
Denver, CO

Carmen Meeks
Group Health CU
Seattle, WA

Jon Meier
Granite CU
Salt Lake City, UT

Tammy O'Leary
Wanigas FCU
Saginaw, MI

Ryan Olsen
Whatcom ECU
Bellingham, WA

R. Dale Owen
AECCU
Bettendorf, IA

Karen Pease
US Central CU
Overland Park, KS

Gary Scanlon
Century Heritage FCU
West Mifflin, PA

Robin Sheets
CSRA FCU
Augusta, GA

Lisa Shields
URW 831 MFCU
Danville, VA

Richard Skaggs
Vista FCU
Lake Buena Vista, FL

Carol Lee Smith
Virginia CU League
Lynchburg, VA

Vicki Squires
Boulder MEFCU
Boulder, CO

Edward Swanson
Patelco CU
Deerfield, IL

Michele Thompson
Burbank City EFCU
Burbank, CA

Steve VanSickler
Air Academy FCU
Colorado Springs, CO

Ellen Verdugo
GAFCU
El Centro, CA

Wayne Washington
Fairwinds CU
Orlando, FL

Jeff Wellen
Como NCCU
St. Paul, MN



CUNA Lending Council SPECTRUM is a web-based newsletter published quarterly by the CUNA Lending Council at www.cunalendingcouncil.org. Send news and Lending Council information to: Sharon Gaugler, Austin Area Teachers FCU, phone: (512)302-6836, fax: (512)451-9569, e-mail: sgaugler@aattfcu.org. For Council information, contact Pamela Frey, manager council administration, phone: (800)356-9655, ext. 4141 or fax: (608)231-4061, e-mail: pfrey@cuna.coop

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